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No. 09-262

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

USI MidAtlantic, Inc., *et al.*,

Petitioners,

v.

William A. Graham Company,
d/b/a The Graham Company,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Did the Third Circuit err when, upon applying the framework set forth in *TRW v. Andrews*, 534 U.S. 19 (2001), it analyzed "the text, structure, legislative history and underlying policies of the Copyright Act," Pet. App. 23a, to conclude, consistent with every other circuit to have addressed the question, that a copyright cause of action accrues when the plaintiff discovers or should have discovered it?

2. In applying the copyright discovery rule under which the jury found that the statute of limitations had not run, did the Third Circuit err in reversing the district court's initial grant of a new trial and later grant of summary judgment because the Court made a single citation to *Merck & Co. Securities, Derivative &"ERISA" Litigation*, 543 F.3d 150 (3rd Cir. 2008), *cert. granted*, No. 08-905 (May 26, 2009), while discussing the inferences a jury could reasonably draw from one piece of evidence that the district court had used only for summary judgment?

CORPORATE DISCLOSURE STATEMENT

Respondent William A. Graham Company d/b/a The Graham Company has no parent corporation, and no publicly held company owns 10% or more of its stock.

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INTRODUCTION

Petitioners seek this Court's advisory opinion on two issues that were not the basis of the Third Circuit's decision below and are not presented in this case.

1. In their first issue, Petitioners urge the Court to pronounce a "default" rule for fixing the accrual date on which every federal statute of limitations would begin to run. But this case does not turn on such a "default" accrual rule and does not call for creation of such a rule for every federal cause of action. Rather, the Third Circuit, guided by this Court's decision in *TRW v. Andrews*, 534 U.S. 19 (2001), merely held that a discovery rule applies to civil copyright actions because it "comports with the text, structure, legislative history and underlying policies of the Copyright Act." Pet. App. 23a. In so doing, the Third Circuit reached a result consistent with that of every other circuit that has addressed this issue. *See* Pet. App. 15a.

2. Petitioners' other issue relates to the Third Circuit's reversal of the district court's overturning of a jury's decision finding Respondent Graham's copyright claim timely under the Copyright Act's statute of limitations. In an effort to tie this case to another pending in this Court from the court below, *Merck & Co. Securities, Derivative &"ERISA" Litigation*, 543 F.3d 150 (3rd Cir. 2008), *cert. granted*, No. 08-905 (May 26, 2009), and thereby to postpone a decision on their Petition here, Petitioners mischaracterize the holding and reasoning underlying the Third Circuit's reversal and portray it as dependent on the decision in *Merck*. There is no basis for that portrayal. Contrary to

Petitioners' suggestions, *Merck* has but a tangential connection to the Third Circuit's application of the copyright discovery accrual standard here. No matter how this Court resolves the securities fraud pleading questions raised in *Merck*, it will have no impact on the Third Circuit's decision in this case. In fact, in its entire 38-page opinion, the Third Circuit cited *Merck* exactly once. Pet. App. 30a.

STATEMENT OF THE CASE

Factual Background

Respondent Graham is a commercial insurance broker that developed a unique approach to obtaining and retaining clients by performing written "surveys" of prospects' existing insurance programs that show gaps and other deficiencies in coverage and then providing them with "proposals" containing Graham's solution to those deficiencies. C.A. J.A. 311-13, 118-19. Taking over a decade to write, Graham compiled Standard Works that codified this approach, containing hundreds of pages of insurance explanations, forms, checklists, and instructions for preparing client-specific surveys and proposals. Pet. App. 4a, 29a, 42a, C.A. J.A. 1158-1534, 1535-1775, 206-11, 219-20, 327-8, 1412-15, 202-203. Graham diligently protected its copyrights in these Works by putting copyright notices on them, registering them with the Copyright Office, and entering into agreements with its employees that they not use the works for the benefit of anyone but Graham. Pet. App. 6a, 31a-32a, 72a.

Petitioner Thomas Haughey worked for Graham as a producer (salesperson) from 1985 to 1991.[1] Pet. App. 3a. Haughey understood that Graham claimed copyright in the Works, and had himself put Graham copyright notices on proposals he had prepared. C.A. J.A. 621-22. Haughey was terminated in September 1991, but on amicable terms, and he promptly got a job at Flanigan, O'Hara & Gentry ("Flanigan"). Pet. App. 31a. Graham sold Haughey six of his Graham accounts, and agreed to provide him with those accounts' files, including the clients' recent proposals. Pet. App. 6a. Because those proposals contained copyrighted language from the Works, Graham obtained Haughey's and Flanigan's express, written agreement not to copy from the Works. Pet. App. 6a, 31a-32a. This agreement was memorialized in a November 1991 contract between Graham, Haughey, and Flanigan. *Id.* For ten months after Haughey's departure from Graham (September 1991), neither he nor Flanigan copied anything from the Works. Pet. App. 6a-7a, 28a. Then, in July 1992, Haughey secretly began copying Graham's copyrighted material into confidential client proposals. Pet. App. 7a & n.2, 33a.

In 1995, Flanigan was purchased by Petitioner USI, a national insurance broker. Pet. App. 7a. Even though Petitioner developed its own templates for client proposals, it had nothing comparable to Graham's. Pet. App. 7a, 8a, 35a. Therefore, in 1995, Petitioner hired temporary employees to copy Graham's Standard Works into its computer system, replacing all references to

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[1] Petitioners incorrectly refer to the individual Petitioner as "William" Haughey in the caption and throughout the Petition. His name is Thomas. *E.g.*, App. 1a, 39a, 69a.

"Graham" with "USI" and deleting Graham's copyright notices. C.A. J.A. 405-6, 428-9, 414-15, 2272-2445, 266-67. Petitioner then distributed a memo urging its employees to "remember to use" the Standard Works. Pet. App. 8a, 84a. Years later, Petitioner distributed hard copies of the Works to all its producers. Pet. App. 35a, 84a. The Works were so essential to Petitioner that, even after it was sued for copyright infringement, it continued to use them. Pet. App. 84a.

Because Petitioners kept their infringement secret and because Haughey never told Graham he would eventually decide to violate his agreement, Graham did not discover Petitioners' infringement until November 2004, when it happened to receive one of Petitioners' proposals from a client. Pet. App. 32a-33a, 73a. (As a matter of industry and Petitioners' own practice, a broker's client proposals are kept confidential from other brokers, unless the client shares or agrees to share them. Pet. App. 8a, 32a-33a) Promptly thereafter, in February 2005, Graham filed this suit. Pet. App. 74a. In discovery, Petitioner USI tried to hide the "pervasiveness" of its infringement of over thirteen years, Pet. App. 83a, by shredding incriminating (and likely infringing) proposals it had been ordered to produce by the district court and then lying about the destruction in depositions. C.A. J.A. 824-27, 811, 579. Petitioner was sanctioned for this, and the jury was charged with a spoliation instruction, which Petitioner did not appeal. Pet. App. 35a; C.A. J.A. 1129-54. Eventually, Petitioners admitted that they had copied from the Standard Works into over 950 infringing client proposals, and done so for 315 of their clients beginning in July 1992 and not ending until June 2005. Pet. App. 43a, 84a.

The case was first tried to a jury in June 2006. Pet. App. 69a-70a. The jury found that Petitioners infringed Graham's copyrights and awarded damages, in the form of disgorged infringer profits, of $16,561,230 against USI and $2,297,397 against Haughey. Pet. App. 2a. This award covered the 13-year period of infringement that started in July 1992 and continued several months past Graham's filing of suit. Pet. App. 9a, 82a. In rendering its verdict, the jury found that Graham's claim was not barred by the Copyright Act's three-year statute of limitations, 17 U.S.C. § 507(b), by answering "No" to a special interrogatory that asked: "should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights" more than three years before bringing suit? Pet. App. 10a, 92a.

The district court overturned the jury's verdict in two steps. First, it granted a new trial on the statute of limitations, holding that the jury's finding was "against the weight of the evidence." Pet. App. 102a. To do so, the district court relied on four main "storm warnings" that it said should have put Graham on notice of Haughey's infringement earlier than when Graham sued: (1) Haughey had copies of the Works in his possession when he departed Graham in September 1991; (2) Haughey did not return the Works when he left; (3) the only purpose for having the Works was to copy them; and (4) Haughey joined Flanigan, a competing broker, when he left Graham. Pet. App. 96a-101a.

A few months later, the district court entered summary judgment against Graham on the statute of limitations issue, thereby eliminating the need for the new trial it had earlier ordered. The district court based this decision on the same four "storm warnings" on which it had earlier relied. It also cited as a fifth "storm warning" an additional piece of evidence that was never before the jury: a letter from Graham, after Haughey's September 1991 departure, asking him to stop soliciting his former Graham clients because it "is a violation of your contract." Pet. App. 57a-58a. The dispute reflected by this letter was resolved by Graham and Haughey one month later, when they entered into their November 1991 contract, under which Graham sold Haughey and Flanigan six of Haughey's old accounts and Haughey promised again not to copy from the Works. Pet App. 31a. The district court nonetheless concluded that Graham's letter signaled imminent copyright infringement because a "person who had breached an agreement with Graham in this regard is likely to infringe the copyright on its Works." Pet. App. 65a-66a.

The effect of the district court's twin rulings was to limit Graham's recoverable damages to the three-year period immediately preceding its lawsuit filing date. Pet. App. 23a-24a. After a second jury trial quantified the damages for this shortened period, Graham appealed the district court's original new trial and subsequent summary judgment rulings to the Third Circuit. Pet. App. 13a.

The Third Circuit's Decision

The Third Circuit reversed the district court. Two aspects of its decision are pertinent to the Petition.

1. In response to Graham's argument that the trial court had erred in reversing the jury and holding that Graham's claim was time barred under a statute-of-limitations discovery rule, Petitioners argued that no discovery rule should have been applied to the Copyright Act, and that instead a copyright cause of action accrued under an "injury rule" on the date the copyright infringement occurred. Pet. App. 15a-16a. The Third Circuit disagreed, holding that a copyright cause of action does not accrue until the plaintiff knows or should reasonably know of the infringement. Pet. App. 14a-23a.

This holding was consistent with those of every other court of appeals that has considered the question. Pet. App. 15a-17a. Noting Petitioners' argument that "these precedents are not persuasive" because none of the circuits had "address[ed] the Supreme Court's decision in *TRW, Inc. v. Andrews*," the Third Circuit accordingly proceeded to conduct an analysis that followed this Court's analysis in *TRW*. Pet. App. 15a-23a.

As in *TRW*, the Third Circuit started with the text and structure of the statute, concluding that "the text and structure of the Copyright Act actually favor use of the discovery rule." Pet. App. 17a. In particular, the Third Circuit emphasized that the Act's statute of limitations uses different accrual language in its two

subsections governing criminal and civil actions. The criminal subsection, which predates the civil, uses the phrase "cause of action arose," which, based on this Court's precedent, "embod[ies] the injury rule." Pet. App. 17a-18a. The civil subsection, added years later, employs a broader phrase – "the claim accrued" – that precedents have held "embod[ies] the discovery rule." Pet. App. 17a-18a. The Court observed that Congress' choice of different language was presumed to be deliberate and was entitled to deference. Pet. App. 18a.

The Court next examined the legislative history leading to the 1957 enactment of the Copyright Act's civil limitations subsection. The Court found "no 'directive' mandating use of the injury rule in that legislative history." Pet. App. 18a. Instead, it found legislative history favoring a discovery accrual rule, notably statements from Congress that it would not be adopting specific exceptions to the general accrual rule (as it did in the Fair Credit Reporting Act discussed in *TRW*, for instance) because it wanted "to ensure that the courts could consider any equitable circumstances sufficient to excuse a plaintiff's failure to sue within the three-year limitations period," including a plaintiff's inability to discover a hidden injury through reasonable diligence. Pet. App. 21a-22a.

Finally, the Court turned to policy considerations, noting that they too favored a discovery rule for copyright actions, particularly in this modern age when "[t]echnological advances such as personal computing and the internet" have made it more difficult to police unauthorized uses of copyrighted works. Pet. App. 22a-23a.

The Third Circuit engaged in this thorough analysis after noting that it had applied *TRW* a few months earlier in an action under the Americans with Disabilities Act ("ADA"), *Disabled in Action of Pennsylvania v. Southeastern Pennsylvania Transportation Authority*, 539 F.3d 199, 209 (3d Cir. 2008). The Court said that *Disabled in Action* set out a two-part inquiry for determining the appropriate accrual rule for federal causes of action. "First, where Congress has specified an accrual date by explicit command or by implication from the structure and text of the statute, we defer to its directive. Second, in the absence of a contrary directive from Congress, we apply the federal discovery rule." Pet. App. 16a (internal quotations and citations omitted).

It is the second part of this *Disabled in Action* quotation – "in the absence of a contrary directive" – that Petitioners cite to suggest that the Third Circuit in this case applied a "default" discovery rule to decide the copyright accrual question. Pet. at 2, 7, 11, 14, 15. As noted, however, the Third Circuit did no such thing. It adopted a copyright discovery accrual approach because it found a congressional directive in favor of such a rule from the Copyright Act's text, structure, legislative history, and policies: "We conclude that use of the discovery rule comports with the text, structure, legislative history and underlying policies of the Copyright Act." Pet. App. 23a. Although it quoted *Disabled in Action*'s general two-step framework, the Court's analysis never proceeded beyond the first step. Having found that Congress had, for civil copyright actions, specified an accrual rule "by implication," there was no need for the Third Circuit to proceed further.

2. Having adopted a discovery accrual for copyright actions, the Third Circuit then applied that standard to the facts of this case. Pet. App. 23a-33a. Specifically, the Court reviewed the district court's two rulings on the statute of limitations – the initial grant of a new trial and the subsequent entry of partial summary judgment. Pet. App. 24a-25a. In this regard, Petitioners filed a Fed. R. App. P. 28(j) letter with the Third Circuit suggesting that its recent decision in the *Merck* securities fraud pleading case was supportive of Petitioners' position on what the discovery accrual standard requires. Contrary to Petitioners' request, however, the Third Circuit did not rely upon *Merck* generally or as a controlling standard.

The Third Circuit mainly focused on the grant of the new trial. The district court had relied on evidence of "storm warnings" to overturn the jury's verdict, and the principal issue on appeal was whether a jury was required to conclude that Graham should have known that Haughey would begin copyright infringement almost a year after these "storm warnings," despite substantial evidence (all before the jury that had found Graham's claim timely) enabling Graham to believe that Haughey would not do so. The "storm warnings" on which the district court had relied all dated from the time of Petitioner Haughey's departure from Graham (September 1991), but the first act of copyright infringement did not take place until ten months later (July 1992). Pet. App. 26a-27a. The district court had filled in the temporal gap by finding as a matter of law a duty on the part of copyright plaintiffs to investigate possible future infringements "in the offing," but the Third Circuit rejected that notion: "we have rejected

the proposition that the discovery rule places a duty on prospective plaintiffs to inquire into possible future wrongful conduct." Pet. App. 27a.

The Third Circuit also assessed each of the four "storm warnings" on which the district court had premised its new trial grant. For each of the warnings, it concluded that a jury could have reasonably interpreted the evidence differently, and could have relied on other evidence suggesting that Haughey was unlikely to infringe – evidence that the district court did not consider. Pet. App. 27a-30a. Ultimately, the Third Circuit reversed the new trial decision because "[t]he evidence before the jury was sufficient to support its conclusion that Graham was not on notice of Haughey's (and USI's) infringement prior to February 9, 2002." Pet. App. 32a. In this analysis, the Third Circuit never cited to, or relied on, its prior decision in *Merck*.

The Third Circuit then addressed the district court's grant of partial summary judgment. Here, the district court had relied on an additional "storm warning" that was not in evidence at trial – a letter in which, shortly after Haughey's departure in October 1991, Graham warned Haughey not to solicit his former clients because it would be a "violation of his contract." Pet. App. 57a-58a. The district court had held this letter was a "warning" of future infringement because a "person who had breached an agreement with Graham in this regard is likely to infringe the copyright on its Works," but the Third Circuit rejected the notion that this was an inference the jury had to draw. Pet. App. 30a-32a. In this narrow context, the Third Circuit made a single citation to *Merck*, as an analogy supporting the

proposition that "improper solicitation of a business, if it in fact occurred, is a far cry from copyright infringement." Pet. App. 30a. The Court also noted that the district court had ignored the fact that a few weeks after the "warning" letter was issued, the parties resolved their differences with an agreement in which Haughey promised not to copy from Graham's works. Pet. App. 31a. The Third Circuit pointed to this November 1991 promise not to infringe as evidence from which the jury could reasonably have inferred "that Graham was diligently protecting its rights." Pet. App. 32a.

REASONS FOR DENYING THE PETITION

I. There is No Circuit Split on the Only Real Accrual Question in this Case

Petitioners frame the first question presented in their Petition as a wide-ranging, abstract one concerning the appropriate "default" rule for all federal statutes when Congress is silent on accrual. But the Third Circuit did *not* rely on any such across-the-board "default" rule. Rather, it analyzed the Copyright Act's statute of limitations specifically, by examining the Act's particular text, structure, legislative history, and policies. The only question thus properly raised by the Third Circuit's accrual decision is the discrete and specific one set out in the first sentence of its opinion: "whether the discovery rule or the injury rule governs the accrual of claims under the Copyright Act, which has a three-year statute of limitations for civil actions, 17 U.S.C. § 507(b)." Pet. App. 1a. And that is not a

question that calls for review by this Court on certiorari, because all federal appellate courts agree with the Third Circuit on the appropriate answer.

A. The Circuits Have Uniformly Adopted a Discovery Accrual Rule for Civil Copyright Causes of Action

On the specific question of accrual under the Copyright Act, there is no circuit split. Before the Third Circuit's decision, six circuits – the First, Second, Fourth, Sixth, Seventh, and Ninth – considered the proper time of accrual for copyright actions, and each of them agreed upon the discovery accrual approach that the Third Circuit also adopted:

- First Circuit: "Under the [Copyright] Act, the cause of action accrues when a plaintiff 'knows or has reason to know of the act which is the basis of the claim.'" *Cambridge Literary Prop., Ltd. v. W. Goebel Porzellanfabrik G.m.b.H.*, 510 F.3d 77, 81 (1st Cir. 2007).

- Second Circuit: "A cause of action accrues when a plaintiff knows or has reason to know of the injury upon which the claim is premised." *Stone v. Williams*, 970 F.2d 1043, 1048 (2d Cir. 1992).

- Fourth Circuit: "The limitations period for bringing copyright infringement claims is three years after the claim accrues. And a claim accrues when 'one has knowledge of

a violation or is chargeable with such knowledge.'" *Lyons P'ship, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 796 (4th Cir. 2001) (citations omitted).

- Sixth Circuit: "A copyright infringement claim 'accrues when a plaintiff knows of the potential violation or is chargeable with such knowledge.'" *Roger Miller Music, Inc. v. Sony/ATV Publ'g, LLC*, 477 F.3d 383, 390 (6th Cir. 2007).

- Seventh Circuit: "the copyright statute of limitations starts to run when a plaintiff learns, or should as a reasonable person have learned, that the defendant was violating his rights." *Gaiman v. McFarlane*, 360 F.3d 644, 653 (7th Cir. 2004).

- Ninth Circuit: Section 507(b)'s "three-year clock begins upon discovery of the infringement. . . . The critical question, then, is a familiar one: when did the plaintiff discover the infringement?" *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 706-707 (9th Cir. 2004).

No circuit has adopted the injury accrual rule that Petitioners advocate.

Indeed, none of the circuits that uniformly adopted discovery accrual for copyright actions relied on the "default" federal discovery rule that Petitioners seek

to make the issue here. The Ninth Circuit, for instance, grounded its adoption of discovery accrual for copyright on policy considerations, noting that a discovery rule guards against the unfairness of stripping copyright owners of a way to redress violations they could not reasonably know were occurring: "a copyright plaintiff who, through no fault of its own, discovers an act of infringement more than three years after the infringement occurred would be out of luck." *Polar Bear*, 384 F.3d at 706. The court observed that an injury rule would not further the classic purposes behind statutes of limitation – "to promote the timely prosecution of grievances and discourage needless delay" – because an owner who could not reasonably discover the violation would not be engaging in needless delay: "It makes little sense, then, to bar damages recovery by copyright holders who have no knowledge of the infringement, particularly in a case like this one, in which much of the infringing material is in the control of the defendant." *Id.* at 706-07.

Other circuits adopted copyright discovery accrual by focusing on precedent. The Fourth and Sixth Circuits, for instance, rooted their decisions in a 1971 copyright case, *Prather v. Neva Paperbacks, Inc.*, 446 F.2d 338 (5th Cir. 1971).[2] In *Prather*, the Fifth Circuit

[2] For the Fourth Circuit, see *Lyons Partnership*, 243 F.3d at 796, citing *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 202 (4th Cir. 1997), citing *Roley v. New World Pictures, Ltd.*, 19 F.3d 479, 481 (9th Cir. 1994), citing *Wood v. Santa Barbara Chamber of Commerce, Inc.*, 507 F. Supp. 1128, 1135 (D. Nev. 1980), citing *Prather*, 446 F.2d at 340.

For the Sixth Circuit, see *Roger Miller Music*, 477 F.3d at 390, citing *Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d

(Cont'd)

examined the legislative history of the 1957 statute that enacted a statute of limitations for civil actions (then codified at 17 U.S.C. § 115(b), now at § 507(b)), and read the history as meaning "that equitable considerations would therefore apply to suspend the running of the statute" under the Copyright Act. *Id.* at 340. The "equitable consideration" the *Prather* court applied was the fraudulent concealment doctrine because fraudulent concealment was "plaintiff's only alleged excuse" on the facts of that case. *Id.* But later appellate decisions extended these equitable considerations to encompass the discovery rule. *See Roley v. New World Pictures, Ltd.*, 19 F.3d 479, 481 (9th Cir. 1994); *Polar Bear*, 384 F.3d at 706-07; *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 202 (4th Cir. 1997). Moreover, in this case, the Third Circuit read this same legislative focus on equitable considerations as a reason for adopting discovery accrual: "we believe that Congress' expressed intent to allow the courts to consider equitable circumstances to extend the time for filing an infringement action is consistent with use of the discovery rule." Pet. App. 21a-22a & n.8.

The Seventh Circuit likewise focused on copyright-specific precedent. The root case here is its 1983 decision in *Taylor v. Meirick*, 712 F.2d 1112 (7th Cir. 1983), in which Judge Posner concluded that, although he could not "find a copyright case on point," the discovery accrual approach should apply to the copyright claim in that case. *Id.* at 1117-18. (Other than *Prather*'s

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615, 621 (6th Cir. 2004), citing *Roley*, 19 F.3d at 481, citing *Wood*, 507 F. Supp. at 1135, citing *Prather*, 446 F.2d at 340.

fraudulent concealment decision, as of 1983, none of the other circuits had yet issued their copyright accrual decisions.) Judge Posner relied upon equitable considerations: "Probably it should be enough to toll the statute of limitations that a reasonable man would not have discovered the infringement; and there is no evidence that [plaintiff] Taylor was unreasonable in failing to discover the infringing maps before 1979." *Id.*

Finally, the First and Second Circuits arrived at a discovery rule for copyright by borrowing from the discovery rule they had adopted for Section 1983 actions.[3] And nowhere in these circuits' Section 1983 cases is there a suggestion that the Section 1983 accrual rule is based on an across-the-board "default" federal discovery rule. *See Rodriguez Narvaez v. Nazario*, 895 F.2d 38, 41 n.5 (1st Cir. 1990) ("The general rule established by these [§ 1983] cases is that the time of

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[3] For the First Circuit, see *Cambridge Literary*, 510 F.3d at 81, citing *Santa-Rosa v. Combo Records*, 471 F.3d 224, 227 (1st Cir. 2006) (copyright case), citing *Rodriguez-Garcia v. Municipality of Caguas*, 354 F.3d 91, 96-97 (1st Cir. 2004) (§ 1983 action), citing *Rodriguez Narvaez v. Nazario*, 895 F.2d 38, 41 n.5 (1st Cir. 1990) (§ 1983 action), citing *Rivera Fernandez v. Chardon*, 648 F.2d at 767-68 (1st Cir. 1981) (§ 1983 action) and *Cox v. Stanton*, 529 F.2d 47, 50 (4th Cir. 1975) (§ 1983 action).

For the Second Circuit, see *Stone*, 970 F.2d at 1048, citing *Cullen v. Margiotta*, 811 F.2d 698,725 (2d Cir. 1987) (§ 1983 and civil RICO action), citing *Pauk v. Board of Trustees of the City University of New York*, 654 F.2d 856, 859 (2d Cir. 1981) (§ 1983 action), citing *Bireline v. Seagondollar*, 567 F.2d 260, 263 (1977) (§ 1983 action), citing *Young v. Clinchfield Railroad Co.*, 288 F.2d 499, 503 (4th Cir. 1961) (Federal Employers' Liability Act), citing *Urie v. Thompson*, 337 U.S. 163, 187 (1949) (Federal Employers' Liability Act).

accrual of a civil rights action is when the aggrieved party knows or has reason to know of the injury."). The First and Second Circuits may be criticized for not explaining in greater detail their rationale for applying Section 1983 precedent to copyright, but they cannot be faulted for employing the "default" federal discovery rule that *TRW* criticized.

Thus, Petitioners are completely mistaken when they claim that these "courts of appeals have applied their *default* time of discovery accrual rule to Copyright Act claims." Pet. at 16-17 (emphasis added). None of these circuits relied on a "default" federal discovery rule, nor did the Third Circuit in this case.

B. The Third Circuit Dutifully Applied *TRW*'s Analytical Framework to the Copyright Act

In *TRW*, this Court criticized the Ninth Circuit for applying "a general presumption applicable across all contexts" that "all federal statutes of limitations, regardless of context, incorporate a general discovery rule, 'unless Congress has expressly legislated otherwise.'" *TRW*, 534 U.S. at 27. The Court did not reach the issue of whether the presumption existed, because it sufficed that the Ninth Circuit had improperly applied it: "To the extent such a presumption exists, a matter this case does not oblige us to decide, the Ninth Circuit conspicuously overstated its scope and force." *Id.*

TRW's clear import is that the analysis of limitations accrual must be conducted on a statute-by-statute basis by considering the particular language, structure, and

context of the statute at issue. And, before and after *TRW*, that is precisely what this Court has done. In *TRW*, the Court arrived at an accrual rule based solely on "the text and structure" of the Fair Credit Reporting Act ("FCRA"). *Id.* at 28-29. In *Bay Area Laundry & Dry Cleaning Pension Trust Fund v. Ferbar Corp. of California*, 522 U.S. 192 (1997), the Court focused on statutory text and structure in rejecting a plaintiff-unfriendly accrual rule that would have started the limitations clock running even before there was a "complete and present cause of action," emphasizing that it was resolving "a statute of limitations issue concerning *this legislation*." *Id.* at 197-98 (emphasis added). And in *Wallace v. Kato*, 549 U.S. 384 (2007), the Court adopted a "distinctive rule" for accrual of false imprisonment actions brought under Section 1983, employing a "refinement" to a standard injury accrual rule based on "the common law's distinctive treatment of the torts of false arrest and false imprisonment." *Id.* at 388-89.

In this case, the Third Circuit conducted precisely this same type of statute- and context-specific analysis in adopting a discovery accrual rule for copyright: "We conclude that use of the discovery rule comports with the text, structure, legislative history and underlying policies of the Copyright Act." Pet. App. 23a. The Third Circuit never applied a general "default" federal discovery rule or "general presumption applicable across all contexts." Ironically, it is Petitioners who now urge that type of general presumption, seeking an advisory opinion from this Court that would apply to all federal statutes, regardless of each one's text, structure, legislative history, or

policies, and regardless of the implications for decades of precedent. Pet. at 9-10.

Statutory text and structure. *TRW* adopted an injury accrual rule for the FCRA based on the "text and structure" of the statute. The Third Circuit began its analysis of the Copyright Act in the very same place, holding that "the text and structure of the Copyright Act actually favor use of the discovery rule." Pet. App. 17a. The court relied on a unique feature of the Copyright Act's statute of limitations – the difference in language between the limitations clause for *criminal* copyright actions and the clause for *civil* copyright actions. Pet. App. 17a-18a. The criminal clause, § 507(a), predates the civil clause, § 507(b). The criminal clause starts the limitations clock at the time "the cause of action *arose*." 17 U.S.C. § 507(a) (emphasis added). As the Third Circuit noted, this use of the word "arose" calls for injury rule accrual. *McMahon v. United States*, 342 U.S. 25, 27 (1951). In *McMahon*, this Court held that an admiralty statute's use of accrual language ("after the cause of action arises") virtually identical to the criminal clause's language ("after the cause of action arose") defined an injury accrual rule: the "arises" language means "that the period of limitation is to be computed from the date of the injury." *McMahon*, 342 U.S. at 27. Indeed, in *TRW* itself, this Court described *McMahon* as standing for the proposition that the phrase "'cause of action arises' incorporates [the] injury occurrence rule." *TRW*, 534 U.S. at 32.

In contrast, the Copyright Act's civil clause uses a different phrase – "after the claim accrued." 17 U.S.C. § 507(b). As the Third Circuit noted, a few years before

this clause was added to the Act, this Court held in *Urie v. Thompson*, 337 U.S. 163, 169-70 (1949), that the "accrued" language was broad enough to "embody[] the discovery rule." Pet. App. 18a; *see also Cada v. Baxter Healthcare Corp.*, 920 F.2d 446, 450 (7th Cir. 1990) ("accrual" encompasses both an injury rule and a "discovery rule"). And Congress decided to use this "accrual" wording for the civil clause even though, had it wished to adopt an injury rule, the earlier-enacted criminal clause showed exactly the words to use: "after the cause of action arose." As the Third Circuit properly held and as Petitioners do not challenge, "when the legislature uses certain language in one part of the statute and different language in another, the court assumes different meanings were intended." Pet. App. 18a, citing *Sosa v. Alvarez-Machain*, 542 U.S. 692, 711 n.9 (2004).

In essence, this case is *TRW*'s mirror image. In *TRW*, the FCRA's text and structure pointed this Court to an injury accrual rule. In this case, the Copyright Act's text and structure directed the Third Circuit to a discovery rule. But in neither case was a "default" federal discovery rule applied.

Legislative history. After examining the Copyright Act's text and structure, the Third Circuit considered the legislative history of the 1957 statute that enacted the civil limitations provision. Pet. App. 18a-21a. *Cf. Auscape Int'l v. Nat'l Geographic Soc'y*, 409 F. Supp. 2d 235, 244 (S.D.N.Y. 2004) (concluding for the Copyright Act that "*TRW* requires examination of the statutory structure and legislative history in determining whether a discovery rule or injury rule should apply").

The Third Circuit held that this history also favored discovery accrual, pointing to Congress' decision not to enumerate specific exceptions to the general accrual rule (in contrast to what Congress did under the FCRA in *TRW*). Congress wanted "to ensure that the courts could consider any equitable circumstances sufficient to excuse a plaintiff's failure to sue within the three-year limitations period," and the Third Circuit held that one of those "equitable circumstances" was the plaintiff's inability to discover through reasonable diligence a hidden injury. Pet. App. 21a-22a. Similarly, the Third Circuit examined all the specific pieces of legislative history that Petitioners argued established an injury rule, but found in them "no 'directive' mandating use of the injury rule." Pet. App. 18a.

Near the end of their brief, Petitioners cite to a district court decision, *Auscape*, and to copyright commentators praising the opinion, to suggest that *Auscape*'s reading of the legislative history as mandating an injury rule was the correct one. Pet. at 19-20. But the Third Circuit was intimately familiar both with *Auscape* – which Petitioners placed front and center before the court – and with the legislative history. The Third Circuit performed its own careful and thorough analysis of that congressional record and concluded that it favored a discovery accrual rule. Petitioners hardly criticize that analysis in their brief, let alone provide a reason for disturbing it. And as for the commentators that Petitioners cite, they not only weighed in before having the benefit of the Third Circuit's decision, but they have a history of flip-flopping on the copyright accrual issue. Before *Auscape*'s gloss on the legislative history, Professor Nimmer thought

the discovery accrual rule was the "better" one. *See Polar Bear*, 384 F.3d at 707, citing 3 Nimmer on Copyright § 12.05[B] at 12-135. Perhaps the next edition, in light of the Third Circuit's decision, will return to that view.

Copyright and limitations policy. Finally, the Third Circuit also addressed broader policy considerations, concluding "that use of the discovery rule would be inappropriate as a matter of policy." Pet. App. 22a-23a. *Cf. Disabled in Action*, 539 F.3d at 214 (reviewing "policy considerations" in performing *TRW*-based analysis of accrual under federal disabilities statutes). Here, the Third Circuit emphasized that a discovery accrual approach protects against those "instances" where there is hidden infringement that cannot reasonably be discovered. Pet. App. 23a. This is particularly true in the modern age, where "[t]echnological advances such as personal computing and the internet" have become staples of daily life, but have also made it increasingly difficult to identify and police against unauthorized copying. Pet. App. 23a.

Other circuits have noted these important policy concerns. The Ninth Circuit has stressed that, without the benefit of a discovery rule, "a copyright plaintiff who, through no fault of its own, discovers an act of infringement more than three years after infringement occurred would be out of luck. Such a harsh rule would distort the tenor of the statute." *Polar Bear*, 384 F.3d at 706. And the First Circuit has observed that, for copyright, a discovery accrual approach "reflects a sensible tradeoff" between an infringer's interest in avoiding exposure for old violations and the "substantial hardship that an inflexible statute of limitations might

otherwise" place on copyright owners who could not have discovered the infringement. *Warren Freedenfeld Assocs., Inc. v. McTigue*, 531 F.3d 38, 46 (1st Cir. 2008).

On the other side of the balance, Petitioners' main policy argument against discovery accrual – that copyright infringements are generally "public" and readily ascertainable – actually undermines their position. Adoption of a discovery rule would cause no harm in that context, because even under a discovery rule, a plaintiff reasonably should be aware of public infringements. The Fifth Circuit provides a telling example involving an infringed ZZ Top album: "ZZ Top's actions were not covert or concealed. Indeed, many copies of *Fandango!* were released and ZZ Top performed the song publicly. [Therefore] the Nightcaps either knew, or through reasonable diligence should have known, about ZZ Top's actions." *Daboub v. Gibbons*, 42 F.3d 285, 291 (5th Cir. 1995).

As the circuits have held, depriving copyright owners of the ability to recover for hidden infringement they could not reasonably have discovered does not promote the goals of statutes of limitations – encouraging "timely prosecution of grievances" and discouraging "needless delay." *Polar Bear*, 384 F.3d at 706. A plaintiff cannot be delaying needlessly if it is not aware of a cause of action. "It makes little sense, then, to bar damages recovery by copyright holders who have no knowledge of the infringement, particularly in a case like this one, in which much of the infringing material is in the control of the defendant" *Id.* at 706-707. Even the student Note on which Petitioners rely for policy arguments (Pet. at 21) concluded, after examining

copyright and statute of limitations policies, that the discovery rule best serves them in the context of copyright: "courts should adopt the discovery rule for statute of limitations accrual calculations in the context of copyright infringement claims in order to protect lawful copyright holders to the most thorough extent possible." 17 Fordham Intell. Prop. Media & Ent. J. 1125, 1166 (2007).

Petitioners' final policy argument is that a discovery accrual rule would have a "chilling effect on [authors'] speech." Pet. at 20. They offer no proof. Indeed, authors, filmmakers, and musicians in the creative hotbeds of California and New York have operated for at least a decade under a copyright discovery accrual rule; the Ninth Circuit has had copyright discovery accrual since 1994, *see Roley v. New World Pictures, Ltd.*, 19 F.3d 479, 481 (9th Cir. 1994), and the Second Circuit since 1992, *see Stone*, 970 F.2d at 1048. There is no evidence that the statute of limitations accrual rule has "chilled" content creation in those creative zones. And, given Petitioners' concession that most copyright violations are public and therefore not affected by the discovery rule, it is hard to understand why that might be.

C. Petitioners' Alleged Circuit Split Between the Third and Fifth Circuit on a "Default" Discovery Rule is Illusory

Ignoring the Third Circuit's actual holding and reasoning, Petitioners instead try to convey the illusion of a circuit split by mischaracterizing the Third Circuit's opinion as applying an across-the-board "default" federal discovery rule. This is plainly mistaken. As

discussed above, the Third Circuit adopted the accrual rule for copyright by examining statutory text, structure, legislative history, and policy, not by falling back on a "default" or presumptive accrual rule.

Petitioners' illusory circuit split is premised entirely on reading one sentence in the Third Circuit's opinion out of context – a quote from its earlier decision in *Disabled in Action:* "First, where Congress has specified an accrual date by explicit command or by implication from the structure and text of the statute, we defer to its directive. Second, in the absence of a contrary directive from Congress, we apply the federal discovery rule." Pet. App. 16a. (citations and internal quotations omitted). But the sentence has no bearing here. The Third Circuit never reached step two of the *Disabled in Action* framework, because the accrual question was resolved at step one. The court found that Congress had specified a discovery accrual approach for copyright not only in the "text and structure" of the Copyright Act, but also in the legislative history. Yet step two of the *Disabled in Action* framework – "in the absence of a contrary directive from Congress, we apply the federal discovery rule" – is the *only* part of the Third Circuit's reasoning Petitioners cite (it appears at Pet. App. 16a, and is cited in Pet. at 2, 7, 11, 14, 15). Petitioners argue that this one sentence was the exclusive basis for the Third Circuit's decision, showing that the Third Circuit held that "the Copyright Act is subject to a discovery rule because Congress had not specified the time of injury (infringement) as the accrual trigger." Pet. at 7, 11. What the Third Circuit actually held, reasoned, and said in the 10 pages it devoted to the accrual question defeats any such suggestion.

Indeed, even in *Disabled in Action*, where the "in the absence of a contrary directive" sentence first appeared, the Third Circuit never in fact applied that analysis. *Disabled in Action* involved the determination of an accrual rule for an Americans with Disabilities Act ("ADA") claim based on alleged discrimination in the construction of public transportation facilities. The Third Circuit held that Congress provided an accrual rule via the ADA's "structure and text" – an injury rule based "upon the completion of . . . alterations" to the facilities. *Disabled in Action*, 539 F.3d at 209. Indeed, much like this Court in *TRW*, the Third Circuit in *Disabled in Action* found the statutory language to be "of fundamental importance in answering" the accrual question. *Id.* at 210. Just as in this case, the Third Circuit never applied a "default" federal discovery rule in *Disabled in Action*; it never reached step two of its framework, because it found a congressional directive in step one.

Ironically, the Fifth Circuit case Petitioners point to for their illusory circuit split, *Frame v. City of Arlington*, 575 F.3d 432 (5th Cir. 2009), is another ADA case that *expressly followed Disabled in Action*. Like the Third Circuit, the Fifth Circuit in *Frame* held that an ADA cause of action accrues "upon the completion of a noncompliant construction or alteration." *Id.* at 439. Indeed, *Frame* specifically cited to *Disabled in Action* as guiding its analysis, right before deciding "We therefore think it is inappropriate to apply a discovery rule here." *Id.* at 440. Thus, even at the level of these Third and Fifth Circuit ADA cases, there is no split between the circuits on which accrual rule should apply.

What Petitioners are thus left with is the suggestion that other circuits in other cases involving other federal statutes have had difficulties applying *TRW*. But even this claim is overblown. Petitioners cite nine cases (Pet. at 16-18), none of which indicates that the Circuits are disregarding *TRW* or doing so to keep alive untimely claims. In fact, most of Petitioners' cases affirm limitations-based dismissals and certainly do not apply any "default" discovery rule.[5] And even if another court in another case, like the Ninth Circuit in *Mangum v. Action Collection Serv.*, 575 F.3d 935 (9th Cir. 2009), has had difficulty understanding *TRW*'s scope, that is a reason for considering certiorari in *that* case. It is not a

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[5] The *Porter* and *Limestone* decisions both affirmed dismissals of complaints at the pleading stage as untimely after rejecting the plaintiff's "continuing violation" theory. *See Porter v. Ray*, 461 F.3d 1315, 1321 (11th Cir. 2006); *Limestone Dev. Corp. v. Vill. of Lemont*, 520 F.3d 797, 801 (7th Cir. 2008).

Greenwood reversed a district court that declined to dismiss a case as untimely. *Greenwood v. N.H. Pub. Utils. Comm'n*, 527 F.3d 8, 10, 13-14 (1st Cir. 2008).

Johnson had nothing to do with a federal discovery rule; the debt collection statute at issue had an express injury rule and the court was deciding on which of two alternate dates "the violation occurred." *Johnson v. Riddle*, 305 F.3d 1107, 1113 (10th Cir. 2002).

Cooey was grappling with its own unique issue; it struggled with an injury rule for death row plaintiffs challenging execution procedures as unconstitutional because setting the "accrual date when the actual harm is inflicted, i.e., at the point of execution" would make the claim "moot." *Cooey v. Strickland*, 479 F.3d 412, 416 (6th Cir. 2007).

And *Guilbert* does not even involve a federal cause of action. *Guilbert v. Gardner*, 480 F.3d 140, 149 (2d Cir. 2007) (addressing accrual of "breach of contract claim" under "New York state law").

reason to grant certiorari in this one, where the Third Circuit had no such difficulty and faithfully applied this Court's directives in *TRW* to produce a result consistent with every other circuit to decide the issue. The Petition should be denied.

II. There is No Reason to Delay Decision on the Petition in Light of the Third Circuit's One-Time Citation to *Merck*, in a Highly Fact-Specific Context

In the alternative, Petitioners request that decision on their Petition be postponed until the Court issues its opinion in a securities fraud statute of limitations case arising from the Third Circuit's decision in *Merck*. There is no reason to delay. Again, Petitioners' request rests on a mischaracterization of the actual holding and reasoning of the Third Circuit's decision.

The Third Circuit did not rely upon *Merck* to establish a controlling legal standard that a "plaintiff has no duty to investigate the factual basis of its claim until it ha[s] specific evidence of each element of its claim." Petitioners' Question Presented 2. The Third Circuit cited *Merck* just once in its 38-page opinion, in one narrow and precise context, relating to one piece of summary judgment evidence.

In the relevant part of its decision, the Third Circuit was addressing two district court rulings on the statute of limitations. The district court had first granted a new trial, holding the jury's verdict finding Graham's copyright claims as timely to have been against the "great weight of the evidence." Pet. App. 10a. The court

based its decision on evidence of four so-called "storm warnings" that, in its view, should have alerted Graham of the need to investigate potential future infringement that in fact did not begin for almost a year afterward. *Id.*; Pet. at 6. On appeal, the Third Circuit devoted five pages of its opinion (Pet. App. 28a-33a) to addressing each of those "storm warnings" in turn, and noting the contrary evidence on which the jury could have relied in reaching its verdict. In the end, the Third Circuit concluded that the district court had "abused its discretion in granting USI's motion for a new trial" because "the evidence before the first jury was clearly sufficient to support its finding that Graham was not on inquiry notice." Pet. App. 33a. *Merck* was not once mentioned in the Third Circuit's ruling on the granting of that new trial.

Whatever standard for inquiry notice in securities fraud actions this Court adopts in *Merck* thus is irrelevant to whether the evidence that the Graham *jury* heard at trial supported that jury's verdict that Graham was not on discovery or inquiry notice of Petitioners' copyright violations. It is worth noting that (1) at trial, Petitioners never objected to how the jury was instructed on the discovery rule and (2) *Merck* does not arise out of a jury trial, but rather a Rule 12(b)(6) dismissal based on the allegations pled in a complaint. *See Merck & Co. Secs., Derivative &"ERISA" Litig.*, 543 F.3d 150, 153 (3rd Cir. 2008)

Moreover, contrary to Petitioners' suggestion, the Third Circuit did not rely upon *Merck* to hold that "multiple warning signs of infringement were, as a matter of law, irrelevant." Pet. at 8. The court cited

Merck only in discussing one particular piece of "storm warning" evidence – the October 1991 letter about "improper solicitation of Graham's clients." Pet. App. 30a. Indeed, Petitioners never even presented this "storm warning" evidence to the jury at trial, so, as the Third Circuit recognized, it was relevant only to the Third Circuit's review of the district court's summary judgment decision. *Id.*

The district court had insisted that, even though the parties' solicitation dispute was resolved and Haughey later promised not to copy Graham's works, this was a "storm warning" of copyright infringement because a "person who has breached an agreement with Graham in this regard is likely to infringe the copyright on its Works." Pet. App. 31a. The Third Circuit understandably rejected this reading of the evidence in the context of a summary-judgment motion, noting correctly that "improper solicitation of business, if it in fact occurred, is a far cry from copyright infringement." Pet. App. 30a. A reasonable jury did not have to read the evidence as the district court did, making summary judgment inappropriate. Pet App. 31a. It was in this specific context, with respect to this one letter, that the Third Circuit cited *Merck*, because it had some generally analogous facts and helped shed light on the types of inferences that a reasonable jury could draw. That single limited use is no basis for delaying decision on the Petition now.

CONCLUSION

For the foregoing reasons, Respondent respectfully requests that the Petition for Certiorari be denied.

Respectfully submitted,

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